



National Employment Law Project

***UNEMPLOYMENT INSURANCE MODERNIZATION  
IN MICHIGAN***

**Statement of Rick McHugh,  
Staff Attorney and Midwest Coordinator,**

**National Employment Law Project**

**In Support of**

**HB 4785 and HB 4786**

National Office:  
75 Maiden Lane, Suite 601  
New York, New York 10038  
-www.nelp.org-

Michigan Office:  
900 Victors Way, Suite 350  
Ann Arbor, Michigan 48108  
734.369.5616  
mchugh@nelp.org

May 6, 2009

**Statement of Rick McHugh  
National Employment Law Project  
In Support of HB 4785 and HB 4786**

**Introduction**

To begin, there has never been a time in Michigan's post-WWII War history when unemployment insurance (UI) is more important to our state's economy, our communities, and our jobless workers. Due to the geographic location of auto manufacturing by domestically-based auto companies, the restructuring of the auto industry is having a severe impact on auto-related employment in Michigan. In addition, financial services and building construction have suffered significant employment losses in our state. The unemployment rate in Michigan reached 12.6 percent in March 2009, with over 609,000 individuals out of work. In April, there were about 315,000 individuals receiving weekly UI benefits in Michigan, an increase of 140,000 a week over continued claims levels this time a year ago. Additional thousands have exhausted their state UI benefits and are now drawing federally-financed benefit extensions in Michigan.

National Employment Law Project (NELP) is the nation's leading policy and advocacy organization for jobless and low-income workers. Based in New York City, NELP maintains staff in Michigan at offices in Flint and Ann Arbor. Rick McHugh is an attorney with over 30 years experience in UI law and he has testified before Congress and a number of state legislatures concerning UI issues. He published his first article on UI in 1980, and while employed with NELP Rick has written several reports on UI for part time workers, UI financing issues, and other labor and employment issues.

Mr. McHugh is the principal author of this written statement and he is available for further questions or comments through the contact information provided. In addition, readers are invited to visit NELP's website, including our UI modernization webpage at <[http://www.nelp.org/index.php/site/issues/category/modernizing\\_unemployment\\_insurance](http://www.nelp.org/index.php/site/issues/category/modernizing_unemployment_insurance)>.

**Unemployment Measures in the Recovery Act**

Fortunately, Michigan has new tools available under the American Recovery and Reinvestment Act to stimulate our state's economy and help unemployed individuals and affected communities. In brief, ARRA represents the single most important federal law assisting jobless workers since passage of the Social Security Act in 1935, furnishing over \$40 billion in overall assistance to unemployed workers as economic stimulus in the Recovery Act. Several UI measures offered under the Recovery Act have already taken effect. First, every unemployment check now includes a \$25 weekly supplement that is paid for with federal dollars. Second, long-term jobless workers in Michigan can receive added weeks of benefits under the Emergency Unemployment Compensation program as well as Extended Benefits now available under the new state trigger passed into law a few weeks ago. Again, these extension benefits are fully funded with federal dollars. Third, the Recovery Act suspended income taxation on the first \$2400 of UI benefits paid in 2009. These three UI features of the Recovery Act will help jobless workers as well as Michigan businesses when those jobless workers spend their UI benefits.

Fourth, the Recovery Act made the Extended Benefits program fully-federally funded for the rest of 2009, which has relieved the state trust fund of the burden of paying for half of the benefit charges paid under this program. Currently, under state legislation passed this April, Michigan is paying 20 weeks of Extended

Benefits using this program to provide critical help to long-term jobless workers. Fifth, ARRA suspended federal interest on federal trust fund loans to states for 2009 and 2010, making a suspension of a state solvency UI payroll tax surcharge on Michigan's employers possible under state legislation passed in February. In addition, this interest suspension provision will save Michigan's employers millions of dollars in federal interest payments that would otherwise have been imposed on trust fund loans. In effect, Michigan's employers are getting two kinds of tax relief under this federal interest suspension feature.

### **UI as Economic Stimulus**

It is critical to understand that UI benefits represent one of the most effective forms of government spending in stimulating the economy. Mainstream economists are agreed on this point. Mark Zandi, Chief Economist of Moody's Economy.com, has studied the economic impact of various forms of government outlays and he testified last November before the U.S. Senate Budget Committee. Zandi found that each dollar of unemployment insurance spent produced \$1.63 in economic activity. Only federal food assistance (Food Stamps) produced a bigger "bang for your buck." In comparison, Zandi found that some tax cuts had a negative economic impact, or a smaller positive impact than unemployment benefits, Food Stamps, and increased infrastructure spending.

In a 1999 study for the U.S. Department of Labor, economist Lawrence Chimerine (and others) demonstrated that UI has dampened the impact of the prior five recessions. Mr. Chimerine found that the stimulus produced by UI saved an average of 131,000 jobs in each downturn studied and quelled the drop in production (as measured by GDP) by 15 percent. Moreover, when workers spent UI benefits, Chimerine estimated that each \$1 paid in benefits produced \$2.15 in added GDP economic growth.

In short, UI is not a "zero sum game" in which employers "lose" and employees "win," as critics often claim. UI benefits are financed by employer payroll taxes, are paid out in unemployment benefits, and flow back to businesses when they are spent by jobless workers. This "multiplier effect" of UI is why the Recovery Act has a number of UI features and why Michigan should fully implement the UI measures in ARRA.

### **Fully Implementing ARRA in Michigan**

Legislation under consideration in Michigan (HB 4785 and HB 4786, as revised) will ensure that Michigan fully implements the UI features in ARRA. These bills will assist unemployed workers by providing an added 26 weeks of regular state UI benefits to individuals in approved training and permitting jobless part time workers with a past history of part time work to limit their availability to part time work. Adopting these two measures will permit Michigan's UI trust fund to gain an added \$138.8 million federal dollars to pay for UI benefits that would otherwise be paid for with state UI payroll taxes from employers. In short, Michigan employers are going to continue paying federal FUTA taxes, so getting some of this federal money back to pay UI benefits in Michigan makes more sense than leaving these funds on the table and walking away.

In summary, UI modernization under the Recovery Act provides an overall \$7 billion in federal financial incentives to states that adopt identified UI reforms that improve access to UI benefits. All states that wish to participate in UI modernization must adopt the "alternative base period," a way to determine UI monetary eligibility by including more recent wages when workers do not have sufficient earnings in their traditional base period to qualify. In addition, states can choose to implement two of four optional elements of UI modernization. The size of each state's UI modernization incentive varies based upon the federal UI tax

revenues produced by a state's employers—roughly approximating the size of each state's workforce and economy. In Michigan's case, the overall federal modernization incentive is \$208.3 million.

Under UI modernization, states with the alternative base period (ABP) can get one third (1/3) of their potential federal incentive payment. Michigan has had the alternative base period in place since 2000. As a result, Michigan is already qualified to draw down \$69.4 million dollars of its overall \$208.3 million dollar UI modernization federal incentive. In order to complete UI modernization, Michigan needs to implement 2 of the 4 remaining UI modernization elements. By doing so, Michigan can gain \$138.8 million in additional federal funds for its currently depleted state UI trust fund. These federal dollars will pay UI benefits this year that would otherwise be paid for by state UI payroll taxes on Michigan employers. In order to get these federal incentive payments in 2009, Michigan needs to implement UI modernization by amending its UI law to include two added options; namely, part time UI and UI in training. We now explain those two UI modernization options in greater detail.

### **Part Time Employment and UI**

NELP supports modernizing Michigan's UI program by adding UI eligibility for laid off part time workers with an established history of part time work who want or need to find another part time job as provided for under HB 4786. In 2002, NELP completed the first 53 jurisdiction (50 states, D.C., Puerto Rico, and Virgin Islands) survey of UI law as it impacts part time workers. (This study, entitled *Laid Off and Left Out*, is available on our website.) Since that time, NELP has supported a campaign to increase the number of states permitting part time UI and some states have taken action, including New Mexico, Minnesota and New Hampshire. Now, part time UI is offered as a UI modernization feature and NELP is working hard to increase the number of states that provide UI benefits to laid off part time workers with a past history of part time work. Since February 2009, Arkansas, Georgia, Idaho, and Maryland have adopted the part time option of UI modernization, and we are urging Michigan to join these states by enacting HB 4786.

Michigan has long required that jobless workers must be available for full time work in order to receive UI benefits. This means that a part time worker who is laid off and admits that he or she is only willing to accept another part time job is not eligible for UI benefits in Michigan. This restrictive eligibility rule means that while part time workers have their wages subjected to UI payroll taxes on the same basis as the wages of full time workers, they are not eligible for UI benefits even when they are involuntarily unemployed. In addition, since nearly two-thirds of part time workers are women and a majority are paid lower wages, limiting part time eligibility has a disproportionate impact on women and low wage workers. Michigan's restrictive part time rule is simply inequitable and out of step with the role of part time work in a modern economy.

To many in Michigan, our full time availability rule is as natural as the sun rising in the east, but actually a significant number of states already permit part time unemployed workers to remain eligible for UI benefits. Indeed, states like Kansas, Louisiana, North Carolina, South Dakota and Wyoming are among the 24 states that permit part time workers to get UI benefits when laid off from their part time jobs. In these 24 states, it's as natural as the sun rising in the east to pay UI to part time workers, and it is difficult for stakeholders in those states to understand what the hubbub about part time UI is all about. Like Mark Twain's death, reports of the costs of part time UI and its dangers are greatly exaggerated. Nearly half the states already have part time UI eligibility, and there is detectible, significant distinction between UI programs in these states and UI programs in restrictive states. For these reasons, NELP urges Michigan to adopt a fairer approach to part time UI eligibility by passing HB 4786.

## **UI for Workers in Approved Training**

With our economy in turmoil and dramatically shifting occupational patterns hitting our state, adding some weeks of income support for workers in approved training makes a great deal of sense. By turning the high levels of long-term unemployment into an opportunity for retraining, Michigan can increase the proportion of workers that can complete training and assist our state in developing a workforce better prepared for work in today's changing economy. UI modernization asks states to provide up to 26 weeks of added state UI benefits to workers in approved training, as accomplished with HB 4785 and HB 4786. Five states (California, Maine, New Jersey, Oregon, Washington) had this UI in training feature prior to ARRA, and three other states have adopted this measure recently (Georgia, Idaho, and Iowa). And, UI in training can also support the ongoing Leave No Worker Behind or any similar successor worker training programs.

One attractive aspect of the UI in training option is that its costs are very low during the current recession. Because federally-funded Emergency Unemployment Compensation and Extended Benefits programs are in place in 2009 (and likely in 2010 as well), Michigan has added language to its UI in training bill to ensure that any added state UI benefits paid under this option are paid AFTER all available federal benefits. This will mean that most workers can complete approved training and find jobs prior to needing to use state-funded UI training benefits so long as federally-financed extensions are available. And, once Michigan's economy improves, UI in training will provide income support to jobless workers getting retraining for many years to come.

## **Common Myths about UI Modernization**

While UI modernization only involves \$7 billion of the overall \$787 billion ARRA recovery program, it has been subjected to strong attack by a few governors and employer groups. This opposition is, however, by no means across the board or based upon an accurate examination of UI modernization. Indeed, a number of governors that initially expressed skepticism about or opposition to UI modernization have since signed bills (Governor Sonny Perdue of Georgia, Governor Mike Beebe of Arkansas), while last week Alaska Governor Sarah Palin announced her intention to sign her state's UI modernization bill. In addition, at least 7 Republican Governors (Schwarzenegger (CA), Crist (FL), Rell (CT), Gibbons (NV), Carceri (RI), Huntsman (UT), and Douglas (VT)) have expressed support for taking actions qualifying their states for federal UI incentive funds under UI modernization. In addition to Governor Granholm, Democratic Governors Kaine (VA), Kulongoski (OR), Rendell (PA), Doyle (WI), Culver (IA), Bredesen (TN), and Henry (OK) are supporting UI modernization. (An additional 4 states with Democratic Governors (ME, NJ, NM, NY,) can qualify for UI modernization funding with small or technical changes to their UI laws and are expected to qualify for federal modernization incentive payments in 2009.)

For the most part, these coordinated attacks on UI modernization are based upon more fiction than fact. For example, Louisiana Governor Bobby Jindal criticized UI modernization strongly because it contained federal "strings" that would have ill-considered impacts on his state's UI program. Governor Jindal's leading example was providing UI benefits to jobless part time workers. Since Louisiana already pays UI benefits to its part time unemployed workers, it is hard to understand why Governor Jindal would not wish to accept federal incentives for having this and other positive features in Louisiana law. Rather than look at the real facts about UI modernization, Governor Jindal and a few other governors have expressed their overall philosophic opposition to the Recovery Act and stimulus by targeting UI modernization with exaggerated claims about its costs and impacts.

Georgia is one of the first 9 states to fully implement UI modernization, enacting both part time UI and UI in training. Governor Sonny Perdue initially expressed doubts about UI modernization in Georgia. Once he looked at Georgia's options, however, Governor Perdue concluded that accepting the incentive funds was the best course to follow for his state. For this reason, he supported and signed a bill just like HB 4785 and HB 4786 that we are asking the Michigan legislature to approve. In signing the bill, Governor Perdue stated that "The changes in our unemployment rules and regulations are relatively minor, and I appreciate the General Assembly's willingness to approve additional benefits for unemployed Georgians."

Another widely-repeated fiction about UI modernization is that reform measures must be "permanently" adopted. Again, that is simply wrong, if by "permanent" you mean "forever." In its unemployment insurance program letter issued February 26, one week after ARRA became law, the U.S. Department of Labor made clear that states seeking federal modernization funds must amend their state UI laws without sunsets or limited effective dates, but that states remain free to repeal any UI modernization amendments once the UI modernization incentive period ends in 2012. Without this requirement, states could enact modernization amendments just long enough to get modernization incentive payments, but pay very limited or no UI benefits to jobless workers intended to benefit from UI modernization. In reality, UI modernization is only saying that a current legislature doesn't have the power to bind a future legislature to take a particular action. This is only fair when the overall structure of UI modernization is taken into account.

The "permanent change" fiction is closely connected to the third widespread misunderstanding about UI modernization. This complaint is that federal incentives don't fully compensate states for the total costs of UI modernization changes. At the outset, it should be understood that UI modernization uses an incentive to states to "do the right thing" by modestly expanding state UI programs by implementing certain UI modernization reforms. And, since UI modernization is using a financial incentive, rather than having a federal takeover of state financing of UI programs, critics of UI modernization should not expect the federal government to pay the full freight of UI modernization reforms. And, states should recognize that gaining partial federal support for initiatives that strengthen UI safety nets is a better way to reform UI programs than having federal standards or unfunded mandates. If the federal partner fully funded UI modernization, that would amount to a diminution of states' traditional role in implementing our UI programs. Assuming that the federal-state UI program is a worthy model, UI modernization's use of federal incentives to spur improvements in state laws is a worthy experiment in federalism, in our view.

### **State UI Modernization Actions So Far**

Since February 2009 when the Recovery Act became law, 12 states have acted legislatively to implement all or part of their UI modernization options. (Laws in Alaska and West Virginia have passed both houses, but so far have not been signed into law. Both governors have announced their intentions to do so, so we are counting them here.) Nine states--Alaska, Arkansas, California, Georgia, Idaho, Iowa, Minnesota, Nevada, and Oregon--have adopted (or already had) the alternative base period and/or any other options required to place them into compliance with UI modernization. (Nevada is completing implementation through agency rules.) Maryland has passed part time UI only, and South Dakota and West Virginia have passed ABP only. A table at the end of this testimony summarizes state actions to date.

In terms of the optional subjects of UI modernization amendments, UI modernization has increased the numbers of states with laws containing targeted modernization reforms. With Alaska and Oregon amending their laws to add ABP along with South Dakota and West Virginia, 29 states now have alternative base periods. Following recent state actions, four states (Arkansas, Georgia, Idaho, and Maryland) have adopted

part time UI. As a result, 24 states overall have part time UI laws that meet the standards of UI modernization. Three states have enacted UI in training since passage of ARRA (Georgia, Idaho, and Iowa), bringing that total to 8 states with UI in training. Two states (Minnesota and Arkansas) have adopted a third option under UI modernization referred to as quits for "compelling family reasons." Finally, no state has yet pursued the dependent allowance option, the fourth optional element available under UI modernization.

In summary, during the brief three month lifetime of UI modernization, nine states have fully implemented UI modernization and another 3 states have legislatively started implementation by passing at least one element of UI modernization into state law. In addition, a number of other states, need technical corrections, have bills in committees, or have task forces or study groups and plan to act later in 2009. Overall, we view the strong start for UI modernization positively, with these changes improving state UI programs, helping more jobless workers, and boosting our economy. By taking these actions states are making available as much of the \$7 billion UI modernization incentive funds as possible while furthering the goals of the Recovery Act and boosting participating states' trust funds.

**Conclusion**

In conclusion, House Bills 4785 and 4786 make significant and worthwhile reforms to Michigan's UI program by adopting a UI in training provision and adding improved eligibility rules for part time workers. Both of these UI modernization features will help affected jobless workers and impacted communities, and their costs are fully justified when their benefits to unemployed workers and our state's economy are properly considered. We urge favorable action by the Legislature to pass these bills.

**NELP Summary of State UI Modernization Actions**

**Full Implementation (9 States)**

State	Alternate Base	Part Time	UI in Training	Family Quits
Alaska**	Enacted	Already Had	N/A	Already Had
Arkansas	Enacted	Enacted	N/A	Enacted
California	Enacted	Already Had	Already Had	Already Had
Georgia	Already Had	Enacted	Enacted	N/A
Idaho	Enacted	Enacted	Enacted	N/A
Iowa	Enacted	Already Had	Enacted	N/A
Minnesota	Revised	Already Had	N/A	Enacted
Nevada	Enacted	By Rule	N/A	By Rule
Oregon	Enacted	N/A	Already Had	Already Had

**Initial Implementation (3 States)**

State	Alternate Base	Part Time	UI in Training	Family Quits
Maryland	No	Enacted	N/A	N/A
South Dakota	Enacted	Already Had	N/A	N/A
West Virginia**	Enacted	N/A	N/A	N/A

\*\* Denotes that Governor has not yet signed bill, but has announced intention to do so.



INTERNATIONAL UNION, UNITED AUTOMOBILE, AEROSPACE & AGRICULTURAL IMPLEMENT WORKERS OF AMERICA - UAW

RON GETTELFINGER, *PRESIDENT*

ELIZABETH BUNN, *SECRETARY-TREASURER*

VICE-PRESIDENTS: GENERAL HOLIEFIELD • BOB KING • CAL RAPSON • JIMMY SETTLES • TERRY THURMAN

May 6, 2009

TO: Members of the House Labor Committee

FROM: Nadine Nosal, Legislative Coordinator  
International Union, UAW Michigan CAP

SUBJECT: House Bills No. 4785 and 4786 – Unemployment Benefits

The International Union, UAW, represents over 400,000 active and retired members across Michigan in both the private and public sectors. UAW is asking you for your support today for House Bill No. 4785, which would allow individuals to receive unemployment benefits if they are enrolled in a state-approved training program, and House Bill No. 4786, which would allow part time workers to become eligible for unemployment benefits. UAW represents thousands of members and their families who would benefit from the passage of these bills.

Additionally, if passed, these bills will bring to Michigan another \$139 million in federal stimulus money for Michigan's Unemployment Trust Fund while at the same time providing income for unemployed workers and their families.

In Michigan's current economy there is not a single House District that has been spared from the current economic crisis. As you know, moneys received by the unemployed are spent in their local communities on life necessities such as food, gas, insurance, rent/house payments, utilities, clothing and the numerous other needs to sustain a family. In this way everyone in the community benefits -- the workers, their families and the businesses.

Michigan's unemployed workers need training to prepare themselves for jobs other than those from which many of them were laid off. The reality is many of the jobs formerly held by these workers will not be coming back so they need to be retrained for the new jobs that are part of Michigan's future.

Where UAW represents part time employees our experience has been that they are often the first ones to be laid off when an employer needs to downsize and some of the last people to be returned to work. The majority of our members working part time are women and these part time jobs are often those that are found at the lower end of the wage scale. Currently employers are already contributing to the UI Trust Fund for their part time employees and House Bill No. 4786 would allow these workers, when laid off, the opportunity to benefit from their employer's contributions.

House Bills No. 4785 and 4786 are needed reforms to Michigan's Unemployment Insurance program. Michigan and many of its working families are in crisis and need the benefits provided by these reforms. UAW asks that you support these bills and vote "yes." Thank you.

NN/eeek/opeiu494  
cc: Richard Long



Michigan League FOR Human Services

**Testimony on House Bills 4785 and 4786 (UI Modernization)  
House Labor Committee  
May 6, 2009**

The Michigan League for Human Services supports House Bills 4785 and 4786. If enacted, these bills would allow Michigan to draw \$139 million in federal funds to modernize its unemployment system. We cannot afford to pass up this opportunity with so many in Michigan in need.

In March, we again had the nation's highest unemployment rate at 12.6 percent, and our rate has been the highest in the country for 23 out of the past 24 months.

Michigan's unemployment insurance system has not kept pace with the changing economy and with changing jobs. There are more part-time jobs now and more jobs requiring specialized training. These bills address that.

More than half of the states have already made these reforms and others are considering them.

Also, as we look for ways to stimulate the economy, unemployment benefits give the biggest bang for the buck, according to economist Mark Zandi with Moody's Economy.com. Zandi has testified before Congress that for each dollar spent in unemployment benefits, it generates \$1.65 in economic activity.

The League urges the Legislature to act to modernize our unemployment insurance system, help the unemployed and pull in \$139 million in needed funds.

Attached is a two-page paper on modernizing the Michigan Unemployment Insurance system.



Michigan League FOR Human Services

May 2009

## Michigan Must Reform Its Unemployment System Now

Michigan's 12.6 percent unemployment rate leads the nation. The Detroit metropolitan area has an unemployment rate of 14 percent. The recent news of automobile plant closings, along with the continuing ripple effect of past layoffs in manufacturing and other industries, is likely to worsen the state's unemployment situation.

### Unemployment Insurance Can Provide Relief

During challenging times such as this, laid off workers have depended on unemployment insurance (UI) to replace part of their salaries. As a temporary form of relief, it helps workers and their families avoid financial catastrophe (enabling them to keep their homes, for example) while they look for new employment. Currently, however, only 37 percent of unemployed workers in the state collect UI benefits because many unemployed workers are ineligible.

Michigan has recently made two important updates to its UI program. First, on March 23, 2009, UI benefits were raised by \$25 per week, increasing the maximum weekly benefit from \$362 to \$387. This was part of the American Recovery and Reinvestment Act of 2009 (ARRA) signed by the President in February 2009. The increase, known as Federal Additional Compensation, is taxable and creates no additional cost to employers.

Secondly, on April 13, 2009, the governor signed legislation expanding the extended benefit program from 13 weeks up to 20 weeks, taking effect immediately. This brings the total number of weeks an unemployed worker can receive benefits from 72 to 79 weeks (up to 26 weeks of state unemployment

benefits, up to 33 weeks of federal emergency unemployment compensation and up to 20 weeks of extended benefits).

While these changes provide substantial help to many workers who are currently eligible for UI, there are many other unemployed workers who do not qualify for benefits. However, by adopting some reforms, Michigan can cover those workers, boost its UI trust fund, receive an additional \$139 million in UI benefits covered by stimulus dollars and stimulate the economy.

### The Unemployment Insurance Modernization Act (UIMA)

The Unemployment Insurance Modernization Act (UIMA) is included in ARRA. It provides \$7 billion to states to strengthen their unemployment insurance (UI) programs, and an additional \$500 million in administrative funding for state agencies. Michigan is currently eligible to receive \$69,428,000 of its allotment. If the state adopts at least two additional reforms, it will be eligible for an additional \$139 million, and will receive a total of \$208,283,000 in UI funding and \$14,877,000 to cover administrative costs.

**To access the first one-third of funds:** In order to receive one-third of UIMA stimulus package funds, a state must have adopted the Alternate Base Period (ABP). Without adoption of this reform, a state will not be able to qualify for either the first one-third or the additional two-thirds of UIMA incentive funds. Adoption of the ABP means a state can use earnings from a worker's most recent four quarters of employment in determining unemployment benefits, if that amount is higher than the

amount computed using the Standard Base Period (the first four of the last five completed calendar quarters prior to the file of a claim). This reform allows more workers to qualify for UI. Because Michigan adopted the ABP in 2001, it will automatically receive the first one-third of its UIMA allotment.

**To access the remaining two-thirds of funds:** If a state has adopted the ABP, it must then choose to adopt two out of the following four UI reform provisions. Michigan at this time does not have any of these provisions, but bills have been introduced in the Legislature to provide at least two of them:

- **Allow benefits for part-time workers:** Many states, including Michigan, deny benefits to part-time workers and require them to seek full-time work. Some workers, however, choose to work part-time for family or other reasons, while others prefer to work full-time but are unable to find full-time positions. This reform would allow workers to get benefits for past part-time employment, and to seek part-time employment if they choose. (This reform has been introduced in the Legislature as House Bill 4786 and Senate Bill 445.)
- **Allow benefits for individuals who leave work for compelling family reasons:** These include domestic violence, severe illness of a loved one, or following a spouse to a different place of residence for work-related reasons.
- **Allow benefits for training:** This provision is for permanently laid-off workers who need to build or update their skills in order to become employable. It provides 26 additional weeks of unemployment benefits to workers who participate in vocational training. (This reform has been introduced in the Legislature as House Bill 4785 and Senate Bill 444.)
- **Institute a weekly \$15 minimum dependent allowance.** This is for unemployed workers who care for dependent family members. Michigan law currently provides a \$6 dependent allowance, but to get credit for adopting this reform it needs to raise that allowance to \$15.

## The Necessity of Action

Michigan has the opportunity to receive a very significant amount of money to help its unemployed workers. Adoption of reforms would bring the state's unemployment system more in line with 21st century realities. Expanding eligibility to include part-time workers, for example, would address the fact that an increasing number of workers in Michigan work part time, and many employers have replaced full-time positions with part-time positions. Allowing workers to receive extra weeks of UI while in vocational training addresses the fact that we are moving into an economy in which postsecondary skills are increasingly required—the days of going directly from high school into a low-skill automobile manufacturing job providing good pay and benefits are past. Allowing workers who must leave work for compelling personal and family reasons would provide relief to workers currently not covered.

Reforming our UI system to respond to the new labor force realities would help our state both immediately and in the long run. As the state with the highest employment rate and the most significant challenges in its manufacturing sector, we need to accept any federal funds available that would stimulate the economy and help unemployed workers and their families. Adopting at least two of the four reforms would enable the state to do both. The Legislature must act now, by either passing the two UI reform bills that have been introduced, or initiating new ones that would qualify Michigan for the UIMA funds. Refusing to pass UI reform legislation cannot be an option—there is too much at stake for Michigan and its working families.

### Estimated amount to Michigan

1/3 UIMA incentive for the ABP:	69,428,000
2/3 UIMA incentive payment:	\$138,855,000
<b>Total Incentive Payment:</b>	<b>\$208,283,000</b>
Administrative Allocation:	\$14,877,000

*Source: National Employment Law Project*



## MEMORANDUM

**To:** Members of the House Labor Committee

**From:** Wendy Block, Michigan Chamber of Commerce

**Date:** May 6, 2009

**Re:** Michigan Chamber Opposes Unemployment Insurance Expansion (HBs 4785-86)

---

This memorandum is to express the Michigan Chamber's strong opposition to legislation to permanently expand the state's 100 percent employer-financed unemployment insurance system in an effort to accept one-time dollars from the federal government (HBs 4785-86). This legislation is short-sighted and not cost effective -- and will only serve to increase to raise unemployment taxes on Michigan's job providers at a time when they can least afford it.

Of the two proposals before the House, there is approximately a two-year tipping point where the cost of the unemployment expansion (\$69.7 million/year) will exceed the one-time federal funding (\$138.9 million). Ultimately, this long-term unfunded mandate will cause unemployment taxes on Michigan businesses to increase, which could lead to even greater unemployment and other cost-reducing measures.

Any increases to the unemployment insurance system would come on top of news that employers will be faced with higher federal unemployment taxes (FUTA) come January 2010, because the federal government will begin to require the state to pay back principal on the over \$2.13 billion Michigan has borrowed to meet unemployment obligations and issue checks to claimants. This tax will impact all job providers at a cost of approximately \$21 per employee.

While we understand the need to help displaced workers and the desire to bring in federal stimulus dollars, a better solution would be to ask the Obama administration to provide these needed funds without the costly strings attached.

Please oppose House Bills 4785-86.



May 6, 2009

Members of the House Labor Committee:

The Detroit Regional Chamber **opposes** the acceptance of a one-time payment from the federal government in exchange for a massive, permanent expansion of the State's 100% employer financed unemployment system – and increased payroll taxes on job providers to pay for it.

My concern relates to \$138.9 million in **one-time** “incentive payments” the State would receive if we were to enact **permanent** changes to our unemployment laws by the close of federal fiscal year 2011. This federal mandate calls upon you to approve two of the following four provisions:

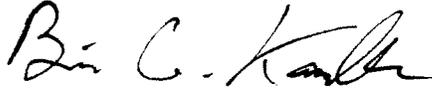
1. Permit former part-time workers to seek part-time work and be eligible for unemployment benefits (introduced in Michigan as HB 4785);
2. Provide benefits to claimants who voluntarily leave for “compelling family reasons”, including domestic violence; the illness or disability of a member of the individual's immediate family; or to accompany a spouse to a place from where it is impractical to commute and due to a change in the location of the spouse's employment;
3. Provide an additional dependent allowance of \$15/dependent, subject to a minimum cap of \$50; or
4. Provide extended benefits to unemployment recipients who have exhausted benefits and are making “satisfactory progress” in a state-approved job training program or in a job training program authorized under the Workforce Investment Act of 1998 (introduced in Michigan as HB 4786).

The Detroit Regional Chamber is **strongly opposed to all four proposals – including HBs 4785-6 -- because they are not cost effective.** There is approximately a two year “tipping point” at which the costs of enacting any two of the above proposals would outweigh the benefits because employers would be forced to pick up the additional costs in the form of higher SUTA and FUTA payroll taxes. **It is important to remember that the Unemployment System in Michigan is 100 percent employer funded – employees are not taxed for UI benefits.**

Any increases to the UI system would come on top of news that employers will be faced with higher FUTA payroll taxes come January 1, 2010 because the federal government will begin to require the State to pay back principal on the over \$2.1 billion Michigan has borrowed to meet unemployment obligations and issue checks to claimants. This tax will impact all job providers at a cost of approximately \$21 per employee.

The long-term tax increases on Michigan employers will damage our State's business climate and decrease employment opportunities in our State. We must reduce costs to make Michigan competitive in the global economy. Please consider the future of Michigan's economy and oppose the proposed incentive funding and HBs 4785-6.

Sincerely,

A handwritten signature in black ink, appearing to read "Brian C. Kandler". The signature is fluid and cursive, with the first name "Brian" being the most prominent.

Brian Kandler

Director, Government Relations

Detroit Regional Chamber



The Voice of Small Business

To: Honorable Members of the Michigan House  
From: Charlie Owens, State Director  
Date: May 5, 2009  
Re: House Bills 4785 and 4786 Unemployment Insurance Tax Increase

We are writing to ask that you do not support House Bills 4785 and 4786 that would expand the eligibility for Unemployment Insurance benefits to part-time workers and extend benefits to those in a job training program.

The purpose for these changes to our Unemployment Insurance (UI) law is so that Michigan could receive a one-time federal stimulus payment of \$138.9 million. The problem is that the permanent annual ongoing expense to Michigan's struggling employers will be \$69.7 million dollars (House Fiscal Agency numbers). In other words, in just two years the federal money disappears and employers who are already scraping just to make payroll will be saddled with higher Unemployment Insurance payroll taxes forever.

Keep in mind that even if we did not adopt these ill-advised changes to our law, Michigan employers will still see UI payroll taxes double by 2011 because our trust fund is broke and we are \$2.1 billion dollars in debt from federal borrowing to pay claims. The Unemployment Insurance system in Michigan is 100 percent financed by payroll taxes on employers. Workers do not pay into it and it receives no general fund or other state monies. Increasing UI costs flows directly to the employer payroll tax and is a discouragement to creating jobs.

Given our unemployment rate relative to other states and the fact that many states are not accepting the stimulus money to in order avoid these changes, Michigan will once again be at a competitive disadvantage in the competition for business and jobs.

Committing to a permanent \$69.7 million annual expense to obtain a one-time \$138.9 million payout is going to dig a deeper hole for Michigan citizens and businesses. Efforts to make these bills sunset when the money runs out will violate Department of Labor guidelines and conformity requirements and will result in a loss of the money. Do not be fooled by suggestions that this can be done. Shame on Congress for putting Michigan and other states in this position instead of allowing flexibility in using this stimulus money.

Once again, we urge you to vote no on House Bills 4785 and 4786. Roll call votes on this issue will be considered in compiling our legislator scorecard and voting record on small business issues this session.

Thank you for support of small business.

A handwritten signature in cursive script that reads "Charlie Owens".

**ORGANIZATIONS OPPOSED TO A STATE UNEMPLOYMENT  
INSURANCE EXPANSION, HBs 4785-86**

Associated Builders and Contractors of Michigan  
Detroit Regional Chamber of Commerce  
Grand Rapids Area Chamber of Commerce  
Frankenmuth Chamber of Commerce & Convention & Visitors Bureau  
Lansing Regional Chamber of Commerce  
Michigan Association of Insurance Agents  
Michigan Association of Home Builders  
Michigan Association of Realtors  
Michigan Bankers Association  
Michigan Chamber of Commerce  
Michigan Grocers Association  
Michigan Insurance Coalition  
Michigan Manufacturers Association  
Michigan Restaurant Association  
Michigan Retailers Association  
National Federation of Independent Business  
Small Business Association of Michigan

Washington's Unemployment Stimulus Money will do exactly that:

## **Stimulate Michigan's Unemployment!**

- Michigan's 100 percent employer-financed Unemployment Insurance (UI) Trust Fund is broke.
- Michigan owes the federal government \$2.13 Billion dollars for UI borrowing.
- Without this ill-advised change to our UI law, Michigan employers could see UI payroll taxes double by 2011 because of federal borrowing.
- HBs 4785-86 would commit Michigan to a *permanent* \$69.7 million annual expense to obtain a *one-time* \$138.9 million payout.
- Expanding eligibility for UI benefits to part-time workers will explode UI experience rates for Michigan job providers -- and small business in particular.
  - Example: One small business employer with a 1.3% UI tax rate, 40 full-time employees and 150 part-time employees through the year estimated that, as a result of expanding UI benefits to part-time employees, his UI taxes could soar from \$15,000/year to \$85,000/year.
- Employers will cut jobs in order to afford the additional payroll taxes from this ill-advised change in Michigan's UI law, digging the unemployment hole even deeper.
- Michigan will, once again, be at a competitive disadvantage to states rejecting this one-time federal money.
- A better solution to accepting this one-time funding through permanent changes to Michigan's UI law would be to take administrative steps that could bring in as much as \$100 million a year – every year.\*
- Shame on Congress for denying Michigan the flexibility to use this money in a way that best helps our state.

\*It is estimated that if the Unemployment Agency would implement a third party software benefit audit system for as little as \$5 Million, the UI claims costs would drop by almost \$100 Million a year permanently!

## **States that "Just Say NO" to accepting federal UI Stimulus Money**

### **Keeping Jobless Rules Intact, Florida Declines Stimulus Money**

<http://www.nytimes.com/2009/04/28/us/28florida.html?partner=rss&emc=rss>

TALLAHASSEE, Fla. — Days from the end of the legislative session, Florida lawmakers have refused to move a bill to expand unemployment eligibility in order to accept \$444 million in federal stimulus aid.

### **Virginia House Rejects \$125M in Stimulus Cash**

<http://www.foxnews.com/politics/2009/04/08/virginia-house-rejects-m-stimulus-cash/>

RICHMOND, Va. — Virginia's Republican-run House of Delegates rejected a proposed expansion of unemployment benefits Wednesday, along with \$125 million in federal stimulus cash to pay for it.

### **Tennessee may reject stimulus aid for jobless**

<http://news.vocus.com/click/here.pl?z1838128225&z=950239508>

Tennessee could reject a portion of the \$787 billion economic stimulus package out of concerns that it would force the state to raise taxes on businesses in the future.

### **South Carolina's governor may turn down stimulus money**

<http://www.latimes.com/news/nationworld/nation/la-na-mark-sanford21-2009feb21,0,1271768.story>

Would a governor in a state with the third-highest unemployment rate in the nation really say no to President Obama's stimulus money?

### **Louisiana Refuses Unemployment Tax In Stimulus Package**

[http://www.bayoubuzz.com/News/Louisiana/Politics/Governor\\_Jindal\\_Refuses\\_Unemployment\\_Tax\\_In\\_Stimulus\\_Package\\_8419.asp](http://www.bayoubuzz.com/News/Louisiana/Politics/Governor_Jindal_Refuses_Unemployment_Tax_In_Stimulus_Package_8419.asp)

BATON ROUGE – Today, Governor Bobby Jindal announced that the state will not change its law to use a part of the \$787 billion federal stimulus bill that would result in an unemployment insurance tax increase on...

### **Mississippi Declines One Part of Stimulus Package**

<http://www.wtok.com/home/headlines/40321822.html>

Rumors have swirled the last week or so since the federal stimulus package was signed by the president. 'Will Gov. Haley Barbour accept the stimulus money?'

### **Texas rejects stimulus funds**

<http://www.reporternews.com/news/2009/mar/12/perry-to-reject-stimulus-cash-for-jobless-aid/>

HOUSTON -- Texas Gov. Rick Perry plans to turn down \$555 million that would expand state unemployment benefits, saying the money would have required the state to keep funding the expanded benefits after the stimulus money ran out.

### **Beebe chewing over jobless-aid offer**

<http://news.vocus.com/click/here.pl?z1838448738&z=950239508>

WASHINGTON - Arkansas Gov. Mike Beebe remains undecided about accepting millions of dollars in federal unemployment aid. Governors in three neighboring states have said they'll turn down the cash, which is part of President Barack Obama's economic-stimulus...

## FREQUENTLY ASKED QUESTIONS

### **Why the Costs of a State Unemployment Insurance Expansion Outweighs the Benefits (HBs 4785-86)**

**Q: Why do you oppose taking federal stimulus dollars in exchange for an expansion of the state's unemployment insurance program?**

A: Because the money comes with too many strings. In order to receive the one-time payment from the federal government, federal law requires the state to *permanently* expand its 100% employer-financed unemployment system. When the federal dollars run out – and they certainly will – Michigan employers will be left to foot the bill through higher unemployment insurance taxes. This will DISCOURAGE employers from hiring new workers and/or growing their businesses. Ultimately, this is not a good trade-off, especially during an economic recession.

**Q: Who pays for unemployment benefits, workers or employers?**

A: The unemployment insurance system is 100% employer-financed through federal and state unemployment taxes (FUTA and SUTA taxes). Workers do not pay for the benefits of this system through payroll tax withholding or otherwise.

**Q: What must Michigan do to qualify for these payments?**

A: A total of \$7 billion in payments is available to the states. Michigan will automatically receive one-third of its share of this amount, or \$69.4 million, because our law provides for an "alternate base period" that includes the most recent calendar quarter in determining eligibility. The federal government would distribute the remaining two-thirds of Michigan's share, or approximately \$138.9 million, in one-time funding to the state if we enact permanent changes to our unemployment law to include two of the following four provisions by the close of the federal fiscal year 2011:

1. Permit former part-time workers to seek part-time work and be eligible for unemployment benefits (**HB 4786**);
2. Provide benefits to claimants who voluntarily leave for "compelling family reasons" (including domestic violence, the illness or disability of a member of the individual's immediate family, or to accompany a spouse to a place from where it is impractical to commute due to a change in the location of the spouse's employment);
3. Provide an additional dependent allowance of \$15/dependent, subject to a minimum cap of \$50; or
4. Provide extended benefits to unemployment recipients who have exhausted benefits and are making "satisfactory progress" in a state-approved job training program or in a job training program authorized under the Workforce Investment Act of 1998 (**HB 4785**).

**Q: How much do these proposals cost?**

A: The House Fiscal Agency estimates that, in as early as one year, the costs of enacting any two of the four proposals would exceed the one-time revenue, thereby forcing employers to pick up the additional costs in the form of higher SUTA and FUTA payroll taxes. Of the two proposals currently introduced in the House (HBs 4785-86), there is approximately a two-year tipping point where costs (\$69.7 million/year) exceed the one-time funding (\$138.9 million).

**Q: Why can't we change the laws temporarily and return to normal when the federal funds run out?**

A: The federal government won't let us. Federal guidelines inform states applying for these funds that their "applications should only be made under provisions of state laws that are currently in effect as permanent and not subject to discontinuation. This means that the provision is not subject to any condition – such as an expiration date, the balance in the state's unemployment fund, or legislative appropriation – that might prevent the provision from becoming effective, or that might suspend, discontinue, or nullify it."

**Q: Why is the business community opposed to adopting any two out of the four proposals?**

A: For several reasons: 1) The cost to employers and the unemployment system will far outweigh the one-time revenue received by the federal government; 2) The proposals will lead to higher unemployment taxes for businesses of all shapes and sizes, creating a new disincentive to doing business in Michigan; and 3) The proposals ignore the cornerstone objective of the unemployment system, which was created to help individuals who are unemployed due to no fault of their own and are actively seeking and available for full-time work.

**Q: Are employers expecting any other increases in the unemployment insurance taxes?**

A: Yes. As of January 2010, employers will be faced with higher federal unemployment (FUTA) taxes because the federal government will begin to require Michigan to pay back the principal on the over \$2.13 billion we have borrowed to meet unemployment obligations and issue checks to claimants. This tax will impact all job providers at a cost of approximately \$21 per employee.

**Q: Is it realistic to ask legislators to say "no" to this money? How do you propose we help the unemployed?**

A: Yes. We understand the need to help Michigan's unemployed and the desire to bring in federal stimulus dollars. However, the long-term tax increases needed to pay for this proposal will only further damage efforts to turn Michigan's economy around. Keep in mind that, even without these changes, the federal stimulus legislation provides much needed help by giving displaced workers a \$25 weekly pay raise and an extension in benefit duration, meaning Michigan claimants would be eligible for up to \$387 per week. Furthermore, the Governor recently signed legislation to make individuals eligible for an additional seven weeks of unemployment benefits, meaning displaced workers are now eligible for up to 79 weeks of unemployment benefits.

**Q: Is there a better alternative to accepting this one-time revenue?**

A: Yes, a better alternative would be to look for cost-saving reforms within the current unemployment system. For example, based on U.S. Department of Labor data, Michigan's Unemployment Insurance Agency paid approximately \$98 million in 2007 to claimants who were working while fraudulently collecting an unemployment check. If the State of Michigan did a better job in detecting fraud, we could possibly return anywhere from \$67 million to \$100 million or more per year back to the state's unemployment system. This is money that would be used to pay claimants the benefits they deserve and reduce the need for additional borrowing from the federal government and/or increases in employers' payroll taxes.

**Q: Does the Legislature need to adopt legislation to turn down this money?**

A: No. If the Legislature does not make any two of four of the proposed changes by the close of federal fiscal year 2011, Michigan simply will not receive these dollars.

**ORGANIZATIONS OPPOSED TO A STATE UNEMPLOYMENT  
INSURANCE EXPANSION, HBs 4785-86**

Associated Builders and Contractors of Michigan  
Detroit Regional Chamber of Commerce  
Grand Rapids Area Chamber of Commerce  
Frankenmuth Chamber of Commerce & Convention & Visitors Bureau  
Lansing Regional Chamber of Commerce  
Michigan Association of Insurance Agents  
Michigan Association of Home Builders  
Michigan Association of Realtors  
Michigan Bankers Association  
Michigan Chamber of Commerce  
Michigan Grocers Association  
Michigan Insurance Coalition  
Michigan Manufacturers Association  
Michigan Restaurant Association  
Michigan Retailers Association  
National Federation of Independent Business  
Small Business Association of Michigan  
Spartan Stores